
Program Audit: Community Action Agencies/CSBG

*Prepared for the Committee on Legislative Research
by the Oversight Division*

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December, 1995

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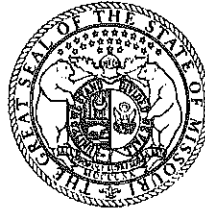
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Members of the Missouri General Assembly:

As authorized by Chapter 23, RSMo, the Committee on Legislative Research adopted a resolution in June, 1995 directing the Oversight Division to perform a program audit of the Department of Social Services' Administration of Community Action Agencies. This included the examination of records and procedures which relate to the administration of the Community Services Block Grant. Program performance was evaluated according to program objectives, responsibilities, and duties as set forth by statute or regulation.

The accompanying report includes Oversight's comments on internal controls, compliance with legal requirements, management practices, program performance and related areas. We hope this information is helpful and can be used in a constructive manner for the betterment of the state program to which it relates.

Respectfully,

A handwritten signature in cursive script that reads "Donald Prost".

Representative Donald Prost, Chairman

PROGRAM AUDIT OF COMMUNITY ACTION AGENCIES/CSBG ADMINISTRATION

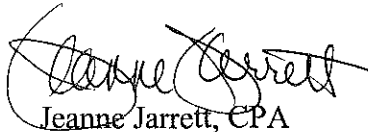
Summary of Oversight Division's Findings

The Department of Social Services is designated by statute as the agency responsible for the administration of the federal Community Services Block Grant (CSBG) resources passed through to the Community Action Agencies. This includes approximately \$10 million annually which is distributed to nineteen Community Action Agencies located around the state. In total the CAAs receive approximately \$100 million, including 90% federal funding, 8% private, 1.5% local and .5% state. CAAs are not-for-profit corporations which operate under a charter and bylaws to administer community action programs. Programs are designed to target poverty areas and served 214,580 clients out of a possible poverty population in Missouri of 663,075 (1990 census).

Has the Department of Social Services program administration of CSBG funds been effective, efficient and operating according to law and legislative intent? The CSBG Program Administrator is responsible for the distribution of approximately \$10 million in federal funds to the CAAs. While the program appears to be functioning well with limited staff, the reliance on one person to accomplish all the duties of a complex program places the program in a highly vulnerable position. The Department has not promulgated rules for the program as statutorily required and has contracted with CAAs on the basis of reimbursement rates which do not reflect anticipated or actual past production costs. In general, Oversight concludes that the Department does not provide adequate management oversight of the \$10 million program.

Is the CSBG Program effective in meeting its goals of having an impact on the causes of poverty? The Department currently has no means of measuring program effectiveness. However, the CAAs are participating in a four-year impact study scheduled to be completed in 1996, which should assist in providing a meaningful measurement of program effectiveness. Also, an implementation of recommended procedures in the external audits could assist the Department in this area.

The following report contains findings and recommendations relevant to the Community Action Agencies/Community Services Block Grant Program administered by the Department of Social Services. Also included are official responses from the Department of Social Services. Our audit was conducted in accordance with generally accepted government auditing standards as they relate to performance audits. We did not examine departmental financial statements and do not express an opinion on them.


Jeanne Jarrett, CPA
Director

Introduction

The Joint Committee on Legislative Research directed the Oversight Division to conduct a program audit of the Department of Social Services (DSS) in regard to the state's administrative and oversight functions related to community action agencies (CAAs). DSS was designated under Section 660.376, RSMo, as the agency responsible for administration of the federal Community Services Block Grant (CSBG) resources passed through to the CAAs. DSS administers the CSBG program in accordance with mandated state assurances included in federal guidelines, P.L. 97-35, as amended.

CAAs are not-for-profit corporations which operate under a charter and bylaws to administer community action programs. Community action programs are community based and operated including an intake, assessment and referral capacity in each county. Programs are designed to target poverty areas. A wide array of services is provided, including those related to employment, education, housing and health services, with an overall focus on removing obstacles which prevent individuals from becoming self-sufficient.

DSS has responsibility for oversight of approximately \$10 million in CSBG funds which are passed through to the nineteen (19) CAAs annually. Historically, CSBG resources have represented about 10% of the total funds the CAAs receive annually. In 1994, the CAAs received funding of approximately \$100 million. Ninety percent (90%) of the 1994 funding was federal (including the CSBG award), 8% private, 1.5% local and .5% state. The total funding received by the CAAs has steadily increased over the past few years.

Census figures from 1990 revealed that 13.3% of Missouri's population was below the poverty level. Of these 663,075 individuals below the poverty level, the CAAs served 214,580 unduplicated clients, roughly one-third of the below poverty population. The concentration of population below the poverty level has a wide span, ranging from only 5.4% in some CAA service areas to as much as 26.4% in others. However, this issue is partially addressed through the allocation method used to pass funds through to the CAAs. The allocation of CSBG funds to the CAAs is based 50% upon poverty population and 50% upon historical factors set in 1981.

This audit is intended to inform the General Assembly of whether DSS' administrative and oversight functions relating to the CSBG program are effective and adequate.

Background

History of Community Action

Community action activities emerged in 1964 as a primary initiative of the federal War on Poverty. The Economic Opportunity Act was passed and authorized anti-poverty programs. However, by the early 1970s, the various programs had not been successful in eliminating the causes of poverty. Consequently, there was a movement to decrease federal involvement toward this effort and to place more emphasis upon the states to direct poverty programs. By 1981, several programs such as Head Start and Weatherization had been transferred elsewhere in the bureaucracy. After President Reagan's inauguration in 1981, the remaining core programs were folded into his new Federalism format and became the Community Services Block Grant (CSBG).

Community Services Block Grant Act

The Office of Community Services within the Department of Health and Human Services is the administrative federal agency for CSBG funds. The CSBG legislation is consistent with the historical mission of community action with an emphasis on removing obstacles and solving problems which block the achievement of self-sufficiency. The CSBG Act placed more responsibility on the states to distribute the federal funds and also required the states to provide certain assurances to the federal government with regard to administration of the CSBG Act.

The goal of CSBG programs is to achieve a measurable and potentially major impact on causes of poverty conditions. The poverty conditions include: 1) unemployment; 2) inadequate education; 3) poor use of available income; 4) inadequate housing; 5) emergency situations; and 6) malnutrition.

Additionally, the CSBG legislation mandates specific strategies to achieve an impact on causes of poverty conditions, including:

- ▶ provide a range of services and activities designed to assist low income participants including the elderly poor,
- ▶ achieve greater participation in the affairs of the community,
- ▶ make more effective use of other programs,
- ▶ provide emergency services to counteract starvation and malnutrition,
- ▶ coordinate and establish linkages between governmental and other social services programs to effectively deliver services to low income individuals, and
- ▶ encourage the use of private sector resources to alleviate poverty.

Missouri's CSBG program accomplishes the mandated requirements through implementation of four strategies, including intake/assessment/referral (IAR); community resource development (CRD); parent aid (PA); and local initiative (LI). The CAAs' reimbursements are based upon units of service provided to satisfy these four strategies.

Management/Oversight of CSBG Funds

DSS receives notice of federal grant awards from the Department of Health and Human Services. Since 50% of the funding allocations to the CAAs is based upon poverty population, the allocation percentages change every ten years based upon census data. Allocation charts are prepared the beginning of the Federal Fiscal Year (FFY) for a base amount. When DSS receives notification of the exact grant award later in the year, contract amendments are added to the CAA contracts to allocate the supplemental funds in accordance with the determined percentages.

Contracts between DSS and the CAAs are executed the beginning of each FFY. At that time, unit cost reimbursement rates are determined for the strategies of IAR, CRD, PA and LI. The CAAs submit billings monthly for units of service delivered based upon the unit cost reimbursement rates. The CSBG Unit reviews the billings to ensure the CAAs' requests for payment are in accordance with contract terms. After further processing by the Division of Budget and Finance, the checks are remitted to the CAAs.

For verification of services provided, CSBG Unit staff makes on-site monitoring visits to each of the CAAs on an annual basis. One-on-one consultation is provided to the CAAs as well.

The CAAs are required to have annual audits by independent external auditors. The audits are conducted in accordance with the Office of Management and Budget (OMB) Circular A-133. The primary focus of these audits is financial and compliance. DSS reviews the independent audits and provides follow up as necessary. Additionally, the State Auditor's Office conducts the Single Audit on an annual basis which covers federal financial assistance programs. In addition to audits conducted by independent firms and the State Auditor's Office, the Department of Health and Human Services conducts periodic on-site Program Implementation Assessments (PIAs) of the CSBG program in Missouri.

Objectives

The primary focus of the audit was to inform the General Assembly of the administrative and oversight functions of DSS, relating to the community action programs funded by CSBG resources. Specifically, Oversight staff concentrated efforts on six objectives:

- ▶ To assess the process of issuing one year performance contracts with the CAAs.
- ▶ To assess DSS' administration of the CSBG funds/program.
- ▶ To examine the receipt and disbursement of federal funds.
- ▶ To examine the methodology for unit cost reimbursement and assess changes.
- ▶ To assess the effectiveness and efficiency of the CSBG program.
- ▶ To assess/examine DSS' oversight functions of the CAAs.

Scope

The scope of the audit focused on DSS' role in distributing the federal CSBG funds to the CAAs and monitoring the CAAs for use of the funds. Information examined to achieve the audit objectives included time periods 1989 through 1995. The primary areas considered in the audit were the contracts, allocation charts, unit reimbursement rates, monthly billings from the CAAs, IAR reports indicating number of individuals served, audits conducted by state and federal agencies and independent firms and monitoring documentation.

Methodology

The Oversight Division conducted the audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States as those standards relate to performance audits. The methodology used by the Oversight Division included tests of samples of transactions and evaluations of management controls to the extent necessary to fulfill our audit objectives. A primary method used to measure objectives was conducting personal interviews with agency personnel. Additionally, Oversight staff performed on-site testing of controls and procedures. Agencies also provided documentation as requested. Another method utilized was direct observation during a monitoring visit to a CAA. Finally, a questionnaire was sent to twelve (12) neighboring states to obtain information as a means of comparison with Missouri's CSBG program. The Oversight Division received a response from seven (7) states.

Findings

Recommendations

Agency Responses

FINDING #1:	The Department of Social Services (DSS) has not promulgated rules and regulations governing each Community Action Agency (CAA) pursuant to RSMo 660.376.
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The State statute requires that each community action agency be governed by rules and regulations promulgated by DSS. While the program is functioning well and is guided by the federal regulations related to the Community Services Block Grant (CSBG), DSS should comply with the directive in the State statute. The rules and regulations would provide further guidance to the CAAs and their clients.

RECOMMENDATION TO FINDING #1

- ▶ DSS should, as required by State statute, promulgate rules and regulations relating to the CSBG Program. This could entail formally adopting the federal guidelines as the rules and regulations to follow as they relate to the CSBG program.

AGENCY RESPONSE TO FINDING #1

Department of Social Services:

DSS acknowledges that rules and regulations have not been promulgated and will consult with its Division of Legal Services regarding compliance with the state statute.

FINDING #2: The potential for a conflict of interest exists due to Department of Social Services' (DSS') monitoring staff working part-time in a community action agency (CAA) office.

The DSS staff responsible for monitoring the CAAs occupies an office, on a part-time basis, in a CAA. Even though Oversight staff noted no evidence of bias in the monitoring of this particular agency, the appearance of a conflict of interest could arise. Additionally, use of this office outside of DSS necessitates increased use of a calling card. Potential savings could result if DSS staff worked out of a DSS office and could use the existing phone line.

RECOMMENDATION TO FINDING #2

- ▶ DSS staff should explore the possibility of space in a DSS office while out of the Jefferson City domicile in order to prevent any perception of a conflict of interest, and at the same time, to realize any potential savings in expenses.

AGENCY RESPONSE TO FINDING #2

Department of Social Services:

DSS has implemented the recommendation.

FINDING #3: The unit cost reimbursement rates to the Community Action Agencies (CAAs) do not accurately reflect actual production costs.

The unit cost for services provided are negotiated by the Department of Social Services' (DSS') program administrator and the Executive Director for each CAA. The intention is for the unit costs to represent anticipated provider production costs. However, Oversight staff's examination of the external audits indicates no such connection on a consistent basis. While

some of the reimbursement rates closely parallel the production costs, other reimbursement rates are not at all representative of production costs. Even though the unit cost reimbursement rates would not affect the total amount of funds allocated to each CAA, alignment of the reimbursement rates with the actual cost of service would provide a potential for serving more clients or providing more units of service to particular clients.

Additionally, a review of the average unit cost reimbursement rates for all nineteen (19) CAAs, for three of the four strategies over the past four years, indicated minimal change. Two of the strategy averages for the 19 CAAs had overall changes of .34% and 1.54%, while a third strategy average had a change of 4.95% for the four-year time period examined. (NOTE: The Intake/Assessment/Referral (IAR) strategy which comprises the .34% change receives approximately 55% of the base allocation amount.) Furthermore, one-half of the 19 CAAs had no change in reimbursement rates for the three strategies during the four-year period. Since it is likely that production costs would change over a four-year time period, i.e., inflation, a periodic evaluation of provider production costs would be reasonable.

RECOMMENDATION TO FINDING #3

- ▶ DSS should implement a procedure for evaluation of the unit costs on a periodic basis, perhaps every two - three years, to ensure the reimbursement rates are representative of provider production costs.

AGENCY RESPONSE TO FINDING #3

Department of Social Services:

DSS concurs that unit costs are intended to represent anticipated production costs of the CAAs. DSS intends that any CSBG revenues in excess of expenditures be applied by the CAA to support its various programs which meet CSBG statutory definitions. DSS will implement procedures to ensure reimbursement rates are representative of CAA total production costs.

FINDING #4:	The Community Action Agency (CAA) external audits do not meet the state requirement for a performance audit, which is imposed by the Community Services Block Grant (CSBG) Program Plan.
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While the external audits comply with federal A-133 guidelines, the State program plan imposes an additional regulation for " . . . a performance audit for each poverty condition showing performance and the impact on the causes of poverty. The performance audit will compare actual performance with contract requirements and will be independently verifiable from the files required by the State mandated management information system."

The CAAs have annual audits done to comply with the Office of Management and Budget (OMB) Circular A-133. The A-133 audits focus on compliance with laws and regulations and evaluation of internal controls. Based on a review of the audit program, the focus appears to be on compliance, rather than on performance. Upon review of the most recently completed external audits, the Oversight staff noted most of the audits included units served, but none of them included the impact on the causes of poverty and approximately half of the audits did not include a comparison of actual performance with contract requirements.

DSS staff may be placing too much reliance on the independent audits of the CAAs. There seems to be a lack of understanding between the independent auditor and the CSBG Unit as to the additional audit requirements imposed by the program plan. Also, the term "performance audit" may be incorrectly used in the State program plan. According to Government Auditing Standards, performance audits include economy and efficiency and program audits. Program audits " . . . include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (2) the effectiveness of organizations, programs, activities, or functions, and (3) whether the entity has complied with significant laws and regulations applicable to the program." While it appears DSS is requesting a program audit of the CSBG program, it is questionable whether the external audits evaluate the effectiveness of the program.

RECOMMENDATIONS TO FINDING #4

- ▶ DSS should write specific audit procedures for the independent auditors, similar to the type of audit program used in the compliance supplement to OMB Circular A-133, that would satisfy the requirements imposed by the CSBG program plan.
- ▶ DSS should also require a separate report of the independent auditor indicating the State's required procedures were performed.

AGENCY RESPONSE TO FINDING #4

Department of Social Services:

In CAA vernacular, "performance" describes effort and "impact" describes result. CPAs verify A-133 requirements, Certified Community Action Professionals verify effort, and professional development courses taught by Northeast Missouri State University provide models required to verify results. Subsequent CSBG program plans will clarify the audit requirements.

FINDING #5: Documentation resulting from the review of external audits and adjustments to monthly billings is unclear.

Evidence of the review of the external audits is not clear. Notations are made on various audit schedules in the audit reports. Although letters to the CAAs address findings, material weaknesses and questioned costs, there is no clear written trail of the review of the numbers in the audits. An outside party would find it difficult to track what was done to review the audits.

Likewise, adjustments made to monthly billings are difficult to track. Even though the CSBG staff could explain and provide supporting documentation for adjustments, a simple explanation on the billing form would enhance the process.

Additional Comments To Finding #5

During audit field work, Oversight staff suggested a revision to the billing form, which would rearrange the columns and provide for more efficient processing/review of the monthly billings. The revision would provide for a running balance of the amount of funds available in the right-hand column, and would include the impact of the current billing amount.

RECOMMENDATIONS TO FINDING #5

- ▶ DSS should prepare standard forms with questions to ask or checklists to complete indicating every step completed during the course of reviewing the external audits, and calculations made when reconciling numbers should be more clearly documented.
- ▶ When reviewing/approving the monthly billings, any adjustments should be briefly explained on the billing forms.

AGENCY RESPONSE TO FINDING #5

Department of Social Services:

DSS concurs that outside parties might find CSBG monthly billing adjustments and audit reviews difficult to track. DSS will implement the Oversight Division recommendations.

FINDING #6:	Administration of the Community Services Block Grant (CSBG) Program has inadequate segregation of duties.
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Administration of the CSBG program for the State of Missouri is accomplished by a Program Administrator. Additionally, one full-time and one part-time support staff assist in the effort. The Program Administrator negotiates the contracts with the Community Action Agencies (CAAs), reviews/approves monthly billings, conducts annual, on-site monitoring visits at the CAAs, reviews external audits, as well as provides one-on-one

consultation/direction to the CAAs as necessary. The Program Administrator is involved in establishing guidelines for the CAAs, and is also involved in assessing compliance with those guidelines. The current structure not only places too much reliance on one person and places the program in a highly vulnerable position, but also entails more work than one individual could accomplish in a reasonable time frame. Even though the Program Administrator seems very dedicated to the CAA mission, the program would suffer should this individual become unable to perform the duties of the position. The State spends less than 2% of the federal funds for program administration, when as much as 5% is allowable. However, improper segregation of duties puts the continuity of the program at risk. No one with the essential expertise is readily available to assume the Program Administrator role, if necessary. Additionally, participation from more staff could provide a more objective approach on issues and could enhance administration of the program overall.

This finding reiterates concerns expressed in a federal report issued in 1990 by the Department of Health and Human Services (HHS), Office of Community Services (OCS), as a result of a Program Implementation Assessment (PIA) of the CSBG Program in the State of Missouri. It stressed the vulnerability of the CSBG program, based upon the organizational structure with too few staff and recommended the expansion of staff. It should be noted that the staffing level in 1990 included one more person than the current staffing level, because the professional position that is now vacant was occupied in 1990.

Appropriate direction in the solution to this issue could alleviate concerns noted in other findings, as well. Some of the noted concerns very likely result from a heavy work load.

RECOMMENDATION TO FINDING #6

- ▶ Serious consideration should be given to filling the position in the CSBG Unit, which has been vacant since January 1994. For example, this position could concentrate more on the monitoring function and allow the Program Administrator to concentrate on other program concerns. Another possibility would be to divide the monitoring/oversight responsibilities for each of the CAAs between the Program Administrator and the newly filled position.

AGENCY RESPONSE TO FINDING #6

Department of Social Services:

DSS is in the process of filling the vacant administrative position.

<p>FINDING #7: The Department of Social Services (DSS) does not provide adequate management oversight of the program.</p>
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Based upon discussions with the Program Administrator's immediate supervisors, it was apparent there was little involvement with the CSBG program by upper management. For example, a review of the contracts prior to signature by upper management entailed more of a clerical function of ensuring all documentation was attached, rather than a substantive review. When discussing the unit cost reimbursement rates, it was obvious that was primarily handled by the Program Administrator.

Meetings with upper management appeared to be more on an exception basis, as opposed to discussions that would occur as a result of the day-to-day operations. Also, a large amount of travel is required of the Program Administrator and no formalized pre-approval of travel is required. Finally, due to the Program Administrator's years of longevity with the CSBG program and the enthusiasm for optimum functioning of the program, upper management places a significant amount of confidence in the Program Administrator. However, the lack of involvement would make it difficult to objectively evaluate the Program Administrator's performance, who is responsible for administration of approximately \$10 million annually. Involvement of DSS upper management would place the agency in a more proactive position, rather than in a reactive position if and when problems arise.

This same issue was addressed in a PIA conducted by HHS in 1990. In addition to concern regarding the CSBG staffing level, limited input/direction from upper management was noted. Recommendations included implementation of a process in which upper level management become

more involved in the day-to-day management decisions.

RECOMMENDATION TO FINDING #7

- ▶ The CSBG Program Administrator's immediate superiors should become more involved in the day-to-day operation of the unit, i.e., 1) contract negotiation process; 2) determination of unit cost reimbursement rates; 3) periodic meetings with the Program Administrator to keep informed about the program; 4) pre-approval/knowledge of Program Administrator's travel schedule; and 5) other activities/participation that would provide for a more objective means for evaluating the performance of the Program Administrator and any other future CSBG program employees under the superiors' direction.

AGENCY RESPONSE TO FINDING #7

Department of Social Services

DSS places considerable confidence in the CSBG program administrator's ability to manage the program with minimum supervision; however, regular supervisory meetings to review program operations will be scheduled.